

**REPORT OF THE AUDITOR-GENERAL TO FREE STATE PROVINCIAL LEGISLATURE  
AND THE COUNCIL ON THE FINANCIAL STATEMENTS OF TOKOLOGO LOCAL  
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

I have audited the accompanying financial statements of the Tokologo Local Municipality, which comprise the balance sheet as at 30 June 2009, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report as set out on pages xxx to xxx

**Accounting Officer's responsibility for the financial statements**

The accounting officer is responsible for the preparation of these financial statements in accordance with the municipality specific basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor-General's responsibility**

As required by section 188 of the Constitution of South Africa, 1996, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126 of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*.

Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

**Accounting records**

The municipality could not provide sufficient appropriate audit evidence to support journal entries of R472 025 569 debited and credited to various account balances and classes of transactions respectively. These journals were also not appropriately documented and authorised. There were no alternative audit procedures that I could perform to obtain reasonable audit assurance that these transactions were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off, classification, existence, valuation and rights and obligation of account balances and classes of transactions as disclosed in the financial statements and supported by the underlying accounting records.

appropriate audit evidence to satisfy myself as to the existence, rights, completeness and valuation of the fixed assets.

- There was no tender management system in place for the identification and recognition of tenders advertised and awarded. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all tenders were appropriately administrated. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to whether value for money was obtained. I could not determine the effect on account balances or classes of transactions contained in the financial statements.
- The corresponding figure includes journals increasing fixed assets with R684 010. No sufficient appropriate audit evidence was available for the journals passed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself to the existence, rights, completeness and valuation of the fixed asset corresponding figure.
- The corresponding figure included additions of R3 066 292 which were inclusive of VAT of R376 563. Had the VAT been correctly allocated, fixed assets would have decreased with R376 563 and debtors would have decreased with R376 563.

## Revenue

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness, accuracy, occurrence and classification of revenue of R41 118 400 (2008: R23 469 320) as disclosed in the income statement for the year ended 30 June 2009:

- The municipality could not provide sufficient appropriate audit evidence to support direct income amounting to R1 482 217 (2008: R2 469 253). The municipality's records did not permit the application of alternative audit procedures regarding the direct income. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, accuracy and completeness of direct income of R1 482 217 (2008: R2 469 253).
- The corresponding figure for actual revenue includes journals increasing actual revenue with R12 133 2836 and journals decreasing actual revenue with R1 440 437. No sufficient appropriate audit evidence was available for the journals passed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself to the occurrence, completeness and accuracy of the actual revenue corresponding figure.
- The interest received of R6 640 169, as disclosed in note 15 to the financial statements, does not agree to the total of R5 711 214 per the bank confirmations. The municipality did not reconcile the difference of R928 955 between the financial statements and the underlying accounting records. Consequently, the interest received is overstated by R928 955 and trust funds of R9 476 931 as disclosed in note 4 to the financial statements is overstated by R926 253 and cash as disclosed on the balance sheet of the financial statements is overstated by R2 702.
- There was no system of control over rates charges levied on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all rates charges levied was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy of rates charges income of R1 274 916.

- The municipality did not perform any reconciliation between the actual amounts received for grants and the amounts allocated to the municipality in terms of DoRA. Consequently the municipality received additional grants totalling R1 969 909. The municipality could not provide sufficient appropriate audit evidence to support the difference. The municipality's records did not permit the application of alternative audit procedures regarding grants received. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and completeness of grants received to the amount of R21 510 138 (2008: R6 920 831).
- There was no system of control over reconnections on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that trading services income occurred. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and accuracy of trading services income as disclosed in the income statement of the financial statements of R993 144.
- The municipality charged electricity tariffs which exceeded the approved tariffs amounting to R5 035 340 (2008: R644 289). If electricity were charged at the correct tariffs the effect would have been to reduce trading services income as disclosed in the income statement and to increase the accumulated deficit and decrease the debtors as disclosed in note 8 to the financial statements with R5 035 340 (2008: R644 289).
- Excluded from revenue is an amount of R2 756 400 resulting from rental contracts which were not renewed for the rental of camps which is still utilised. Consequently the municipality suffered financial losses of the rental of camps of R2 756 400.
- The municipality charged water tariffs which was below the approved tariffs amounting to R2 239 839 (2008: R361 818). If water were charged at the correct tariffs the effect would have been to increase the trading services income as disclosed in the income statement and to decrease the accumulated deficit and to increase the debtors as disclosed in note 8 to the financial statements with R2 239 839 (2008: R361 818).
- The municipality charged sewerage and refuse tariffs which were below the approved tariffs amounting to R280 175 (2008: R76 227). If sewerage and refuse tariffs were charged at the correct tariffs the effect would have been to increase the community services income as disclosed in the income statement and to decrease the accumulated deficit and to increase the debtors as disclosed in note 8 to the financial statements with R280 175 (2008: R76 227)
- The municipality suffered financial losses to the amount of R561 190 due to the fact that no sewerage or refuse was charged to certain customers. If sewerage and refuse tariffs were charged at the correct tariffs the effect would have been to increase the community services income as disclosed in the income statement and to decrease the accumulated deficit and to increase the debtors as disclosed in note 8 to the financial statements with R561 190.

## Debtors

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, valuation and completeness of debtors of R30 445 935 (2008: R19 471 756) as disclosed in note 8 to the financial statements.

- The debtors balance of R32 911 394 (2008:R24 546 795, 2007:R15 339 783), as disclosed in note 8 to the financial statements does not agree to the balance of R25 174 755 (2008:R21 766 431, 2007: R10 138 113) per the debtors age analysis. The municipality did not reconcile the difference of R7 196 639 (2008:R2 780 364, 2007: R5 201 670) between the financial statements and the underlying accounting records. Consequently, the debtors balance is overstated by R7 196 639. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.
- Included in debtors is an amount of R17 503 061(2008:R12 151 182), the recovery of which is doubtful, based on the past payment history of the debtors. A provision has not been recognised in accordance with Statements of Generally Accepted Accounting Practice or Local Governance, GA110. Had an appropriate provision been recognised, debtors would have been stated at R12 942 874 and the deficit for the year and accumulated deficit would have increased by R17 503 061.
- The municipality could not provide sufficient appropriate audit evidence to support debtors amounting to R387 569. Included in this balance are debtors with credit balances of R255 840. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that these balances do exist. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and completeness of debtors of R387 569 (2008: R1 662 934).
- There was no system of control over consumer deposits on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all consumer deposits were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and existence of consumer deposits of R281 531. (2008: R258 048)
- Included in debtors is a credit amount of R2 146 271 which was incorrectly subtracted twice from debtors. Consequently, the debtors balance is understated by R2 146 271. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.
- The municipality could not provide sufficient appropriate audit evidence to support indigent debtors amounting to R438 082. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that expenditure did occur. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and completeness of debtors of R438 082.
- The corresponding figure for debtors includes balances of R2 645 976 that could not be substantiated by sufficient appropriate audit evidence. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable audit assurance as to the recoverability of the debtor's balances. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence and valuation of the debtors corresponding figure as disclosed in note 8 to the financial statements.
- The corresponding figure for debtors as disclosed in note 8 to the financial statements includes interest charged on outstanding balances relating to rates and

taxes. Interest on outstanding balances for electricity, water, refuse and sewerage were not taken into account as required by the interest policy. Had interest on all outstanding balances at 30 June 2008 been taken into account interest charged included in actual income and debtors would have increased with R1 235 849. Consequently the corresponding figures for debtors and actual income are understated with R1 235 849 respectively.

### **Cash and cash equivalents**

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, valuation, completeness and rights and obligations of cash to the amount of R10 188 900 (2008:R1 681 516) as disclosed in the balance sheet.

- The municipality could not provide sufficient appropriate audit evidence to support the reconciling items totalling R7 566 852 (2008:R9 469 219) on the year end bank reconciliation. The municipality's records did not permit the application of alternative audit procedures regarding unknown entries on the year-end bank reconciliation. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation, obligation and completeness of cash.
- The municipality could not provide sufficient appropriate audit evidence to support the balances of cash control accounts totalling R2 455 473. The municipality's records did not permit the application of alternative audit procedures regarding cash control accounts. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation, obligation and completeness of cash.
- The municipality could not provide sufficient appropriate audit evidence to support the unknown deposits totalling R1 593 182. The municipality's records did not permit the application of alternative audit procedures regarding unknown deposits. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation, obligation and completeness of cash.
- I was unable to obtain sufficient appropriate audit evidence as to the correct inclusion of comparative figures opening balances relating to cash and bank as disclosed on the face of the balance sheet to the financial statements to the amount of R1 681 516 (2007: R210 236). No sufficient appropriate audit evidence could be obtained to ensure that opening balances have been corrected in line with prior year reported errors and misstatements. Consequently, I was unable to satisfy myself to the existence, rights, completeness and valuation of cash and bank.
- I was unable to obtain sufficient appropriate audit evidence for comparative figures opening balance differences of R20 463 793 between the opening balances of cash accounts in the accounting records and the prior year audited financial statements. No sufficient appropriate audit evidence could be obtained to ensure that opening balances have been corrected in line with prior year reported errors and misstatements. Consequently, I was unable to satisfy myself to the existence, rights, completeness and valuation of cash and bank.
- The corresponding figures relating to cash and cash equivalents includes journals increasing cash with R36 760 548. No sufficient appropriate audit evidence was available for the journals passed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself to the existence, rights, completeness and valuation of the inventory corresponding figure.

- Statements of Generally Accepted Accounting Practice or Local Governance, GA110, require outstanding cheques to be written back and the expenditure to be accrued. Contrary to this outstanding cheques were written back subsequent to year end and liabilities unpaid resulting in creditors as disclosed in note 11 to the financial statements and cash as disclosed on the face of the balance sheet being understated by R897 809 respectively (2008: R2 503 932).

### **Value Added Tax**

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the valuation, existence and completeness of value added tax debits to the amount of R5 211 530 (2008: R5 282 446) and value added tax credits to the amount of R11 946 663 (2008: R3 996 676) as included under debtors as disclosed in note 8 and creditors as disclosed in note 11 to the financial statements:

- The municipality did not account for input value added tax on the accounting system of the municipality resulting in a material understatement of value added tax debits and an overstatement of various account balances and classes of transactions. The municipality's records did not permit the application of alternative audit procedures regarding input value added tax. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness and valuation of input value added tax to the amount of R5 211 530 (2008: R3 996 676).
- The corresponding figures relating to value added tax as included under debtors and disclosed in note 8 to the financial statements, includes journals decreasing value added tax, with R1 254 580. No sufficient appropriate audit evidence was available for the journals passed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself to the existence, rights, completeness and valuation of value added tax receivable as included under the debtors figure.
- The value added tax debtor, as disclosed in note 8 to the financial statements, does not agree to the balance confirmed by the South African Revenue Service. The municipality could not supply adequate sufficient appropriate audit evidence relating to value added tax debits as included in the general ledger to the amount of R5 211 530. The municipality's records did not permit the application of alternative audit procedures regarding value added tax. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and completeness of value added tax to the amount of R5 875 224.

### **Expenditure**

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence and completeness of expenditure of R43 816 645 (2008: R32 710 596) as disclosed in the income statements for the year ended 30 June 2009.

- The municipality could not provide sufficient appropriate audit evidence to support expenses amounting to R11 011 629. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that expenditure did occur. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, accuracy and cut-off of expenditure of R11 011 629.
- The corresponding figure for actual expenditure includes expenses with a difference of R430 854. No sufficient appropriate audit evidence is available for the difference.

Consequently, I was unable to satisfy myself as to the occurrence, completeness and accuracy of actual expenditure corresponding figure of R430 854.

- The corresponding figure for actual expenditure includes expenses of R2 853 009 without sufficient appropriate audit evidence. No sufficient appropriate audit evidence could be obtained for journal entries which increased actual expenditure with R2 369 059 and journal entries which decreased actual expenditure R5 222 068. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy of actual expenditure corresponding figure of R24 013 066.
- A payment made due to a ruling by the High Court was incorrectly allocated as community services expenses. Consequently, community services expenses, as disclosed in the income statement is overstated by R710 820 and accumulated surplus or fixed assets as disclosed in note 6 to the financial statements are understated by R710 820.
- Included in expenditure is an amount of R466 442, incurred with regard to assets acquired. The Code of Accounting Practice for Local Authorities in South Africa requires that expenditure of a capital nature be capitalised as assets. The assets were incorrectly disclosed as community services expenses in the income statement to the financial statements. Consequently, community services expenses are overstated by R466 442 and fixed assets as disclosed in note 6 to the financial statements are understated by R466 442.
- The corresponding figure for actual expenditure is overstated with R445 283. Had the expenditure been recognised in the correct year, actual expenditure would decrease with R445 283 and accumulated surplus would increase with R445 283.
- The corresponding figure included actual expenditure R5 636 904 which were inclusive of VAT of R695 804. Had the VAT been correctly allocated, expenditure would have decreased with R695 804 and debtors would have decreased with R695 804.

### **Accumulated Deficit**

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, occurrence and valuation of accumulated surplus/deficit amounts to the amount of R(6 748 335) (2008: R7 299 864) as disclosed in note 16 to the financial statements:

- The municipality incorrectly recorded grants received directly against the accumulated deficit. Consequently, both accumulated deficit and income as disclosed in the income statement being understated by an amount of R2 927 583.
- The corresponding figure for accumulated surplus is R7 299 864. No sufficient appropriate audit evidence could be obtained for journal entries which increased accumulated surplus with R9 457 576 and journal entries which decreased accumulated surplus with R4 942 062. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights, completeness and valuation of accumulated surplus corresponding figure of R7 299 864.

- The accumulated deficit of R6 748 334 as disclosed in note 16 to the financial statements does not agree to the underlying accounting records. The municipality could not supply adequate sufficient appropriate audit evidence relating to the accumulated deficit differences totalling R14 033 847 (2008: R562 979). Consequently, the accumulated deficit is overstated by R14 033 847. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.
- The corresponding figure for accumulated surplus is understated with R26 330 518, fixed assets is understated with R444 978, statutory funds is understated with R314 793, housing trading account is overstate with R558 394, consumer deposits is understated with R862, creditors is overstated with R42 992 947, debtors is understated with R11 591 411, cash is overstated with R13 619 190, inventory is understated with R1 694 658, provisions is understated with R5 449 293, long term liabilities is understated with R16 399, actual income is overstated with R2 014 816, actual expenditure is understated with R17 486 003 and other account balances and classes of transactions are overstated with R15 107 088, in order to address prior year misstatements. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights, completeness and valuation of accumulated surplus corresponding figure of R7 299 864.

### Inventory

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the valuation, existence and completeness of inventory to the amount of R1 526 960 (2008: R1 880 029) as disclosed in note 9 to the financial statements:

- The municipality does not have accurate records of the species and numbers of the game owned by the municipality. The municipality does not record new births or any losses that occur due to poaching, animals dying or animals breaking out of camps. The viability if game farming activities conducted by the municipality is in question. The municipality's records did not permit the application of alternative audit procedures regarding the processes or procedures regarding inventory. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and completeness of inventory to the amount of R1 526 960.
- The municipality could not provide sufficient appropriate audit evidence to support inventory write offs totaling R870 879. The municipality's records did not permit the application of alternative audit procedures regarding inventory write offs. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and completeness of inventory write offs to the amount of R870 879.
- The corresponding figure for inventory as disclosed in note 9 to the financial statements includes journals increasing inventory with R1 009 150. No sufficient appropriate audit evidence was available for the journals passed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself to the existence, rights, completeness and valuation of the inventory corresponding figure.
- The municipality did not insure inventory to the amount of R1 526 960.



## **Creditors**

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence and completeness of creditors of R66 470 948 (2008: R62 008 883) as disclosed in note 11 to the financial statements.

- The municipality could not provide sufficient appropriate audit evidence to support creditors amounting to R17 920 516 (2008: R14 254 432). There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that expenditure did occur. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and completeness of creditors of R17 920 516.
- The corresponding figure for creditors is disclosed as R62 008 883. No sufficient appropriate audit evidence could be obtained for journal entries which increased creditors with R13 924 922 and journal entries which decreased creditors with R559 409. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy of creditors corresponding figure of R62 008 883.
- The municipality did not accrue for invoices in respect of goods and services received amounting to R328 428. If these invoices had been accrued for the effect would have been to increase the deficit for the year and the accumulated deficit by R328 428 and to increase the creditors in the balance sheet by an equal amount.
- Section 28(1) of the DORA requires the municipality to refund the National Revenue Fund with all unspent conditional allocations that is not spent at the end of the financial year provided that the unspent allocation is not committed to identifiable projects. Unspent conditional grants amounting to R47 072 364 were included in trade creditors as disclosed in note 11 to the financial statements. There were no commitments disclosed in the financial statements, consequently the unspent conditional grants should be refunded to the National Revenue Fund.

## **Statutory Funds**

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness and valuation of statutory funds to the amount of R6 443 415 (2008: R6 443 415) as disclosed in note 1 to the financial statements:

- The municipality do not have sufficient concomitant assets to substantiate the statutory funds to ensure sound financial practice as required by section 13 of the Municipal Finance Management Act of South Africa. A short-fall to the amount of R7 339 014 was identified. The municipality's records did not permit the application of alternative audit procedures regarding statutory funds. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and valuation of statutory funds to the amount of R6 443 415.
- The corresponding figures relating to statutory funds, as disclosed in note 1 to the financial statements includes journals increasing statutory funds with R524 044. No sufficient appropriate audit evidence was available for the journals passed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself to the existence, rights, completeness and valuation of the statutory funds corresponding figures.

- The municipality did not re-invest interest earned on investments as required by Section 84 of Local Government Ordinance, 1962 (Act No. 8 of 1962). Consequently income as disclosed in the income statement and statutory funds as disclosed in note 1 to the financial statements are overstated and understated respectively with an amount of R5 724 460 (2008: R1 449 292).
- Trading accounts as disclosed in notes 1 and 3 to the financial statements showed no movement for the last number of years, to the amount of R2 104 068 (Housing trading account: R558 394 and Renewal Fund: R1 545 674). The municipality could not supply adequate reasons for no movement occurring on these accounts. The municipality's records did not permit the application of alternative audit procedures regarding statutory fund accounts with no movement. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and valuation of statutory funds to the amount of R2 104 068.
- The standards laid down by the Institute of Municipal Treasurers and Accountants in its Code of Practice (1992) and Report on Published Annual Financial (Second Edition – January 1996) require various disclosure requirements relating to material funds and/or reserves. The municipality did not include accounting policies in the financial statements for the financial year ending 30 June 2009, relating to funds and reserves, which must include detail on contributions, interest allocated, expenditure allowed from the fund and the general purpose of the particular fund or reserve.
- The municipality did not keep a register of erven to be included in the erven development fund. It was also noted that the municipality's asset register did not include any details relating to erven within the area of the municipality. The municipality's records did not permit the application of alternative audit procedures regarding the erven development fund. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and valuation of the erven development to the amount of R138 829.
- The municipality did not contribute 1% of the municipal annual income to the Capital Development Fund, as required by Section 82 of Local Government Ordinance, 1962 (Act No. 8 of 1962). Consequently income as per the income statement and statutory funds as disclosed in note 1 to the financial statements are overstated and understated respectively with an amount of R411 184.

## Provisions

As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, occurrence and completeness of provisions to the amount of R1 513 253 (2008: R4 838 551) as disclosed in note 10 to the financial statements:

- The municipality could not provide sufficient appropriate audit evidence to support leave provisions totaling R785 521. The municipality's records did not permit the application of alternative audit procedures regarding leave provisions. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and completeness of leave provisions to the amount of R1 185 723.
- The municipality made corrections to provision balance accounts via journal entries to the amount of R5 439 842, whereby the accumulated surplus/deficit account was debited with the said amount. Management was unable to provide adequate reasons for this accounting treatment nor could the municipality provide sufficient audit evidence to support these journal entries. This resulted in the accumulated surplus/deficit as disclosed on the face of the balance sheet being overstated and numerous provisions accounts also disclosed in note 10 to the financial statements

being understated. The municipality's records did not permit the application of alternative audit procedures regarding provisions. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and completeness of provisions to the amount of R5 439 842.

- The municipality corrected provision balances with a total amount of R13 589 705 against expenditure during the year under review. The opening balance corrections results in accumulated deficit being understated and expenditure as detailed in the income statements being overstated with R13 589 705 respectively.
- The municipality paid out leave to the amount of R139 680 during the year under review. The municipality did not debit the leave provision account resulting in provision for leave, as disclosed in note 10 to the financial statements and salary related expenditure included in expenditure in the income statements overstated by R139 680.

### **PROPAC Resolutions**

The accounting officer of the municipality did not ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control as prescribed by section 62 of the MFMA as numerous PROPAC Resolutions (originating from the 2004/2005 financial year through to the current 2008/2009 financial year) have not been adequately addressed.

### **Going concern**

Numerous un-favourable financial ratios have been identified, which in terms of Section 138 of the MFMA could be indicative of serious financial problems. This situation indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern and therefore the municipality may be unable to realise its assets and discharge its liabilities in the normal course of operations. The financial statements and notes thereto do not disclose this fact.

### **Irregular expenditure**

Irregular expenditure is defined in the MFMA as expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170; expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act; or expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the by-laws giving effect to such a policy, and which has not been condoned in terms of such a policy or by-law

The following irregular expenditure was not disclosed in the financial statements as stipulated by section 125 of the MFMA, resulting in irregular expenditure in the notes to the financial statements being omitted and understated:

- Contrary to the approved supply chain management policy, expenditure vouchers amounting to R4 607 893 was not approved by three officials when three signatures of approval was necessary.
- Contrary to the approved supply chain management policy, payments amounting to R569 493 were made without signed service level agreements.

- Capital payments exceeding the tender threshold of R200 000 amounting to R12 508 218 were made in contravention of the supply chain management requirements.
- Councillor remuneration totalling R1 259 090, as disclosed in note 13 to the financial statements have not been approved as prescribed by Section 7 of the Remuneration of Public Office Bearer's Act, 1998 (Act No. 20 of 1998)
- The municipality could not provide an employment contract for the accounting officer resulting in remuneration totalling R481 016 (2008: R345 499) as disclosed in note 12 to the financial statements being deemed irregular.
- Irregular expenditure of R7 055 622 identified in the prior year, have not been disclosed in the notes to the financial statements.

#### **Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is defined in the MFMA as expenditure that was made in vain and that could have been avoided had reasonable care been exercised.

The following fruitless and wasteful expenditure was not disclosed in the financial statements as stipulated by section 125 of the MFMA, resulting in fruitless and wasteful expenditure in the notes to the financial statements being omitted and understated:

- Fruitless and wasteful expenditure of R2 078 675 was incurred as goods and services were paid for but not received. This expenditure was not included in the financial statements as fruitless and wasteful expenditure, as required by section 125(2) of the MFMA.
- Fruitless and wasteful expenditure of R46 600 identified in the prior year, have not been disclosed in the notes to the financial statements.

#### **Unauthorised expenditure**

Unauthorised expenditure is defined in the MFMA as expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes overspending of the total amount appropriated in the municipality's approved budget.

The following unauthorised expenditure was not disclosed in the financial statements as stipulated by section 125 of the MFMA, resulting in unauthorised expenditure in the notes to the financial statements being omitted and understated:

- Actual expenditure exceeded the budgeted expenditure by R12 484 608, this was not disclosed in the notes to the financial statements.
- Unauthorised expenditure of R12 618 628 (2007: R481 751) identified in the prior year, have not been disclosed in the notes to the financial statements.

#### **Commitments**

Statements of Generally Accepted Accounting Practice or Local Governance, GA110, require that commitments be disclosed in the notes to the financial statements. Contrary to this commitments totaling R51 634 975 were not disclosed in the notes to the financial statements. Resulting in commitments being understated by R51 634 975.

### **Salaries and wages**

Employees did not take the required number of leave days as prescribed by paragraph 7.1.2 of the South African Local Government Bargaining Council's Collective Agreement on Condition of Service resulting in provision for leave as disclosed in note 10 to the financial statements and salaries and wages as disclosed in the actual expenditure in the income statement being overstated by R625 148.

As disclosed in the income statement of the financial statements, the corresponding figure for actual expenditure includes salary expenses of R12 892 043 without sufficient appropriate audit evidence. No sufficient appropriate audit evidence could be obtained for journal entries which increased actual expenditure with R12 286 324 and journal entries which decreased actual expenditure R1 506 925. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy of actual expenditure corresponding figure of R24 013 066.

### **Basis of accounting**

The standards laid down by the Institute of Municipal Treasurers and Accountants in its Code of Practice (1992) and Report on Published Annual Financial (Second Edition – January 1996), on which basis the 2008/2009 financial statements have been compiled, require various disclosure requirements. Contrary to the afore-mentioned applicable reporting standard, various omissions and short comings have been identified in the financial statements for the financial year ending 30 June 2009.

### **Opinion**

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Additional matters**

I draw attention to the matter(s) below. My opinion is not modified in respect of these matters:

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In terms of the PAA of South Africa and *General notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009* I include below my findings on the report on predetermined objectives, compliance with the Municipal Finance Management Act, Division of Revenue Act, Municipal Systems Act and financial management (internal control).

### **Findings**

#### **Report on Pre-determined objectives**

##### **Non-compliance with regulatory requirements**

##### **No annual report submitted**

The municipality did not prepare the annual report in terms of section 121 (1) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and consequently no performance report have been compiled, which must be included in the annual report as prescribed by section 46 (2) of the Municipal Systems Act, 2000 (Act No.32 of 2000).

### **Lack of adoption or implementation of a performance management system**

The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41 of the Municipal Systems Act, 2000 (Act No. 32 of 2000), and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

### **No mid-year budget and performance assessments**

The accounting officer of the municipality did not by 25 January of each year assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the Municipal Finance Management Act, 2003 (Act No.56 of 2003).

### **No financial plan or spatial development framework**

The municipality did not adopt and include, in the integrated development plan:

- a framework that describes a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its development priorities and objectives, as prescribed by section 3 of the Rules and Regulations of the Municipal Systems Act, 2000 (Act No.32 of 2000).
- a spatial development framework giving effect to the principles contained in Chapter 1 of the Development Facilitation Act, 1995 (Act No. 67 of 1995), as prescribed by section 4 of the Rules and Regulation of the Municipal Systems Act, 2000 (Act No.32 of 2000).

### **Existence and functioning of a performance audit committee**

The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

### **No report on implementation of the budget**

The mayor of the municipality did not, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality, as required by section 52 (d) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003).

### **Internal auditing of performance measurements**

The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

The internal auditor of the municipality did not audit the performance measurements on a continuous basis.

#### **No approval of service delivery and budget implementation plan**

The municipality did not approve a service delivery and budget implementation plan, as required in terms of sections 52 (1)(c)(ii) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003).

#### **Non submission of required information**

The municipality did not submit a copy of the integrated development plan as adopted by the council of the municipality to the MEC for local government in the province within 10 days of the adoption of the plan, as prescribed by section 32 of the Municipal Systems Act, 2000 (Act No.32 of 2000).

#### **No community forum established**

The municipality did not establish a community forum to facilitate community input on the development, content and implementation monitoring of the municipal integrated development plan and performance management system, as required by section 13 and 15 of the Rules and Regulations of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

#### **Compliance with laws and regulations**

##### **Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003) (MFMA)**

- Contrary to section 19(a) of the MFMA, expenditure of R1 434 578 were split by the suppliers on the invoices to avoid compliance with the requirements of the Supply Chain Management Policy.
- Contrary to section 62 of the MFMA, the municipality did not perform risk assessments nor have an approved fraud prevention plan.
- Contrary to section 63 of the MFMA, the municipality did not maintain a management, accounting and information system which accounts for asset and liabilities.
- Contrary to section 65(2)(e) of the MFMA, the municipality did not pay creditor accounts amounting to R1 292 492 within 30 days of receiving the relevant invoice.
- Contrary to section 72 of the MFMA, no performance assessments were performed, nor did the municipality comply with any other sections as required by section 72 of the MFMA.
- Contrary to section 121 and 132 of the MFMA, the municipality failed to compile and submit an annual report for the 2008/2009 financial year.
- Contrary to section 122 of the MFMA, the financial statements submitted by the municipality for the financial year ending 30 June 2009, did not fairly present the state of affairs of the municipality, nor did the financial statements include all the required disclosure information as prescribed by sections 123, 124 and 125 of the MFMA.
- Contrary to section 126 of the MFMA, the financial statements of the municipality for the financial year ending 30 June 2009, were not submitted to the Auditor General within the prescribed timeframe.
- Contrary to section 131 of the MFMA, the municipality did not address the matters reported in prior audit reports or matters relating to identified misstatements.
- Contrary to section 165 of the MFMA, the municipality does not have a functioning internal audit unit.
- Contrary to section 166 of the MFMA, the municipality does not have a functioning audit committee.

#### **Division of Revenue Act of South Africa, 2008 (Act no. 20 of 2008) (DORA)**

- Contrary to section 11 of DORA, no appropriate audit evidence could be obtained to confirm that the municipality reported no National Treasury on schedule 4 allocations to ensure compliance with the said act.

#### **Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) (MSA)**

- Contrary to section 55 of the MSA, no indication could be obtained that the accounting officer administered the municipality according to the requirements of the MSA and other legislation, due to numerous weaknesses identified in the control environment of the municipality.
- No approved performance contracts were in place for senior managers as required by section 57 of the Municipal Systems Act, 2000 (Act No.32 of 2000), including the accounting officer, chief financial officer, manager corporate service, and acting technical services manager.

#### **INTERNAL CONTROL**

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the Municipal Finance Management Act, Division of Revenue Act, Municipal Systems Act, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

#### **Leadership**

The accounting officer did not promote an environment that is conducive to good accountability and service delivery mainly due to lack of competent section 57 managers.

The municipality did not demonstrate proper oversight responsibility to enable proper execution of duties and demonstrate accountability towards the public due to the lack of oversight responsibility over financial reporting and compliance with laws and regulations and internal control. Oversight responsibility is further compromised by the fact that key officials are not available throughout the audit process.

The municipality did not mitigate emerging risks, implement timely corrective measures and address non performance as audit findings are not addressed and SCOPA / Oversight resolutions have not been implemented.



## Financial and performance management

The municipality failed to adhere to numerous legislative reporting deadlines and the quality, and reliability of financial statements, reports on predetermined objectives and management information were not adequate to mitigate the risks of possible misstatements in the financial statements for the financial year ending 30 June 2009.

Numerous documents were not available for audit purposes or could not be supplied without significant delay, resulting in material limitation of scope shortcomings.

The municipality did not take proper action to ensure that risks over financial management systems are mitigated as controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed. The systems in use are not appropriate to facilitate the preparation of the financial statements and performance reports.

## Governance

The municipality did not establish internal control mechanisms, to identify changes in processes or risks and to verify that the design of underlying controls remains effective as the municipality does not have a formal risk assessment process and internal controls are not selected and developed to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

The municipality failed to adopt and implement proper internal controls over the prevention, identification, and mitigation of fraud as a fraud prevention plan was not documented and used as per the requirements of applicable legislation.

The internal audit function at the municipality failed to inspect the adequacy and implementation of internal controls and to implement proper corrective action as internal audit did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice and standards.

The municipality failed to appoint an audit committee which promotes independent accountability and service delivery.

*Auditor-General*  
Bloemfontein

05 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*